

LEGISLATIVE RESEARCH COMMISSION

**COMMITTEE ON TREASURER  
INVESTMENT TARGETS AND STATE  
EMPLOYEE RETIREMENT OPTIONS**

**NORTH CAROLINA GENERAL ASSEMBLY**



**REPORT TO THE  
2014 SESSION  
of the  
2013 GENERAL ASSEMBLY  
OF NORTH CAROLINA**

**MARCH, 2014**

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# TRANSMITTAL LETTER

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March 31, 2014

TO THE MEMBERS OF THE 2014 REGULAR SESSION  
OF THE 2013 GENERAL ASSEMBLY

The Legislative Research Commission herewith submits to you for your consideration its report and recommendations to the 2014 Regular Session of the 2013 General Assembly. The report was prepared by the Legislative Research Commission's Committee on Treasurer Investment Targets and State Employee Retirement Options, pursuant to G.S. 120-30.17(1).

Respectfully submitted,

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Senator Thomas M. Apodaca

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Representative Timothy K. Moore

Co-Chairs  
Legislative Research Commission

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# LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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## 2013 – 2014

Senator Thomas M. Apodaca  
Co-Chair

Representative Timothy K. Moore  
Co-Chair

Senator Phil Berger, Ex Officio  
Senator Dan Blue  
Senator Harry Brown  
Senator Martin L. Nesbitt, Jr.

Representative Thom Tillis, Ex Officio  
Representative John M. Blust  
Representative Justin P. Burr  
Representative Becky Carney  
Representative Mike D. Hager

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## PREFACE

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The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is co-chaired by the President Pro Tempore of the Senate and the Speaker of the House of Representatives and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigation into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission authorized the study on Treasurer Investment Targets and State Employee Retirement Options, under authority of G.S. 120-30.17(1). The Committee was chaired by Representative Jeff Collins and Representative Stephen Ross. The full membership of the Committee is listed under Appendix A: [Committee Membership](#). A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the **2013-2014** biennium. Additionally, agendas and electronic copies of presentations are posted to the Committee's website, which can be accessed at the following link: <http://www.ncleg.net/gascripts/DocumentSites/browseDocSite.asp?nID=253>.



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## COMMITTEE PROCEEDINGS

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The Legislative Research Commission's Committee on Treasurer Investment Targets and State Employee Retirement Options met two times after the 2013 Regular Session. The Committee's charge can be found in Appendix B: [Committee's Charge](#). The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library. Agendas and electronic copies of presentations are posted to the Committee's website, which can be accessed at the following link:

<http://www.ncleg.net/gascripts/DocumentSites/browseDocSite.asp?nID=253>

### February 17, 2014

The Committee on Treasurer Investment Targets and State Employee Retirement Options met for the first time on February 17, 2014, at 10:00 a.m. in Room 1027/1128 of the Legislative Office Building. Representative Jeff Collins, Co-Chair, presided over the meeting and reviewed the issues the Committee was directed to study by the Legislative Research Commission. A list of the presentations and presenters has been provided below.

- **Pension Overview**  
David Vanderweide, Fiscal Research Division, NCGA
- **Financial Report on the Pension System**  
Sam Watts, Policy Development, Retirement Systems Division, Department of State Treasurer
- **Assumed Rate of Return**  
David Vanderweide, Fiscal Research Division, NCGA
- **Treasurer's Initiatives**  
Kevin SigRist, Chief Investment Officer, Department of State Treasurer
- **Overview of Pension Spiking**  
Sam Watts, Policy Development, Retirement Systems Division, Department of State Treasurer
- **TSERS Vesting**  
Sam Watts, Policy Development, Retirement Systems Division, Department of State Treasurer

A brief summary of each presentation is provided on the following pages.

David Vanderweide, Fiscal Research Division, NCGA, provided an overview of the Teachers' and State Employees' Retirement System (TSERS). Mr. Vanderweide discussed the following information on the TSERS: the employees eligible for participation; the defined benefit formula; service and age requirements for unreduced benefits and reduced benefits; sources of funding; and general information on retirement benefits.

Sam Watts, Policy Development, Retirement Systems Division, Department of State Treasurer, provided a financial report on the Teachers' and State Employees' Retirement System (TSERS). Mr. Watts shared that the System remains among the top ten in funded status. As an indication of the funding strength, he also provided brief comments on the State pension plan by Moody's Investors Service, Governmental Accounting Standards Board (GASB), and Standard & Poor's (S&P). Additionally, Mr. Watts provided historical information and forecasts of the required State contribution rates for the TSERS and the projected need for legislative budget funding.

Next, Mr. Vanderweide made a presentation on the Assumed Rate of Return, which is currently 7.25%. He covered how the assumption is used and how the assumption is set. Additionally, Mr. Vanderweide provided information on the assumption used in other states and in the private sector. Mr. Vanderweide offered several alternative conclusions that Committee members might reach regarding the current assumption. The first conclusion is that the current assumption (7.25%) is reasonable based on standard practice among other retirement systems. The second conclusion is that the current assumption (7.25%) is out of line with North Carolina's historical approach to assumptions and methods which has been more fiscally conservative. In response to the second conclusion, Mr. Vanderweide provided the Committee with alternatives.

The fifth item on the agenda was a presentation on the Treasurer's Initiatives by Kevin SigRist, Chief Investment Officer, Department of State Treasurer. Mr. SigRist provided information on the Investment Management Division, including the amount of assets the Division oversees and the portion of those assets divided among internal and external investment management. He provided a chart showing the Short Term Investment Fund (STIF) Cash Rate History compared to the 1 Year Treasury, the Mellon STIF, and the 6-month Treasury Bill. Next, Mr. SigRist provided an overview of the Investment Governance Commission, including: goals, scope, membership, and resources. He also provided information on the 2013 Asset Liability Study including: Peer Comparison, Updated Investment Objectives, and Tentative Conclusions of the Study.

Mr. Watts provided fraud, waste, and abuse prevention recommendations from a study conducted by Buck Consultants. The study recommended a compliance unit within the System and pension spiking legislation. Mr. Watts mentioned the number of employees that might be located in a compliance unit and the return on investment. With regard to pension spiking, Mr. Watts provided information on prevention options and prevention recommendations.

Finally, Mr. Watts provided information on teacher and State employee vesting. Mr. Watts reminded the Committee that the vesting period was changed from 5 years to 10 years in 2011. He stated that it has been determined that the 10-year vesting period is ineffective, impractical, and inconsistent with human resource goals. He also contended that the 10-year vesting period reduces the market competitiveness of the System relative to other public and private pension plans.

Co-chair Representative Collins shared the tentative meeting date of the next Committee meeting and let members know that there would be a report before the Committee at the next meeting.

**March 31, 2014**

The Committee met for the second time on March 31, 2014, at 10:00 a.m. in Room 1027/1128 of the Legislative Building. Representative Stephen Ross, Co-Chair, presided over the meeting. Committee staff shared a report that had been provided to members prior to the meeting. The Committee discussed and voted on a report containing recommendations.

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## FINDINGS AND RECOMMENDATIONS

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### **Finding 1: Positions to Reduce the Risk of Fraud, Waste, and Abuse**

During the Committee on Treasurer Investment Targets and State Employee Retirement Options meeting on February 17, 2014, representatives from the Department of State Treasurer shared information on recommendations to prevent fraud, waste, and abuse. The recommendations were a result of a study conducted by Buck Consultants. In the study, Buck Consultants recommended the creation of "a centralized team that is responsible for all aspects of overpayments and related collections, i.e., identify, research, manage and collect." The Retirement Systems Division does not believe it currently has adequate staffing to handle this task. During the presentation on this topic, a representative from the Department of State Treasurer mentioned the number of employees that might be located in a compliance unit and the return on investment. The Committee supports opportunities to reduce the risk of fraud, waste, and abuse and is willing to support the Department of State Treasurer in this endeavor through the enactment of a bill [2013-MEza-96].

### **Recommendation 1: Positions to Reduce the Risk of Fraud, Waste, and Abuse**

The Committee on Treasurer Investment Targets and State Employee Retirement Options recommends enactment of legislation [2013-MEza-96] by the General Assembly to establish within the Department of State Treasurer a compliance unit, initially consisting of two positions, to more proactively reduce the risk of fraud, waste, and abuse. Receipts to support the positions would come from investment income, contributions to the retirement systems, or other assets of the retirement systems.

*(Legislative Proposal 1, [2013-MEza-96], is provided in Appendix D of this report.)*

### **Finding 2: Address Pension Spiking**

During the first meeting, staff from the Department of State Treasurer addressed the issue of pension spiking. A number of options to prevent pension spiking were mentioned including: lengthening the final average pay period or changing the method to determine Average Final Compensation; implementing a dollar compensation cap; implementing a maximum cumulative increase in compensation during the averaging period; limiting a compensation increase to a dollar limit per year; eliminating certain types of pay from pension compensation; or implementation of a benefit cap with the option to recover the cost of pension spiking to a system. The Department staff then recommended some of these options to the Committee.

The Committee is not prepared to recommend a preferred approach with a bill draft at this time, but does recommend the General Assembly address the issue of pension spiking.

### **Recommendation 2: Address Pension Spiking**

The Committee on Treasurer Investment Targets and State Employee Retirement Options recommends the General Assembly consider ways to implement measures to prevent pension spiking in all public retirement systems.

### **Finding 3: Return to Five Year Vesting**

Representatives from the Department of State Treasurer addressed the vesting period for teachers and State employees. During the presentation, it was noted that the vesting period for teachers and State employees was increased from five years to ten years in 2011. The change was primarily made as a cost-savings measure; however it does not appear that it will yield substantial savings. Last year the one-year savings estimate was one basis point (as a percent of pay), maxing out at seven basis points after more than ten years. In addition to not producing substantial savings, it was noted that a ten year vesting period is ineffective, impractical, inconsistent with human resource goals, and does not make our pension plan competitive with other public and private pension plans. The following points were noted regarding a ten-year vesting period: it is a disincentive to seek employment as a teacher or State employee; it discriminates against newly-hired employees; it deprives short-term employees of retirement protection; it is difficult for elected judiciary and executive leadership; and it makes it more difficult to hire highly-skilled workers and those who are more mobile. The Committee supports a return to a five year vesting period through the enactment of a bill [[2013-LLz-180](#)].

### **Recommendation 3: Return to Five Year Vesting**

The Committee on Treasurer Investment Targets and State Employee Retirement Options recommends enactment of legislation [[2013-LLz-180](#)] by the General Assembly to return to a five-year vesting period for members of the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System and to make conforming changes in the law enforcement officer special separation allowance, for members of those systems hired on or after August 1, 2011.

*(Legislative Proposal 2, [[2013-LLz-180](#)], is provided in Appendix D of this report.)*

### **Finding 4: Assumed Rate of Return Adjustment**

During the February 17th meeting, the Committee heard a presentation on the assumed rate of return for North Carolina's public pensions. The Committee received information on the assumptions used in other states and in the private sector. North Carolina has been fiscally conservative in funding its public pensions since they were created. In fact, North Carolina is regarded by other states as a model for best practices in pension funding. The current return assumption of 7.25% is still justified based on industry practice and the roughly 50% probability of meeting or exceeding this return over the long-run. However, gradually lowering the return assumption would eventually restore the fiscal conservatism that North Carolina had in the 1960s through early 1990s when the probability of meeting or exceeding the return assumption was closer to 100%.

The Committee is not prepared to recommend a specific bill draft at this time, but does recommend the General Assembly consider ways to implement measures or to implement a review process to decrease the assumed rate of return over time.

**Recommendation 4: Assumed Rate of Return Adjustment**

The Committee on Treasurer Investment Targets and State Employee Retirement Options recommends that the General Assembly consider legislative action to implement measures or to implement a review process to decrease the assumed rate of return over time.

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## COMMITTEE MEMBERSHIP

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2013-2014

**House of Representatives Members:**

Representative Jeff Collins, Co-Chair

Representative Stephen Ross, Co-Chair

Representative John Blust

Representative Josh Dobson

Representative Nelson Dollar

Representative Edward Hanes

Representative Julia Howard

Representative Pat Hurley

Representative Bert Jones

Representative Joe Sam Queen

Representative Edgar Starnes

Representative Ken Waddell

Representative Tim Moore, Ex Officio

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## COMMITTEE CHARGE

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The following is an excerpt from the October 29, 2013, authorization by the Legislative Research Commission creating the Committee on Treasurer Investment Targets and State Employee Retirement Options:

...

**"Treasurer Investment Targets and State Employee Retirement Options** - The LRC Study Committee on Treasurer Investment Targets and State Employee Retirement Options shall study the authority statutorily granted to the State Treasurer over the State pension funds as compared to other states and examine what constitutes a reasonable return on North Carolina's investments considering the current economic environment. In conducting this study, the Committee may consult the Department of the State Treasurer.

The study shall include the following:

- (1) The current target rate of return for the State's pension fund investments.
- (2) An examination of the level of authority and investment limitations applicable to the State Treasurer as compared to other states.
- (3) A recommendation as to whether the General Assembly should consider revising the current investment targets for state pension fund investments.
- (4) An examination of the realized, annual return on investment for the State's pension fund investments dating back to 2003.
- (5) National trends relating to revisions to the statutory authority of state treasurers and investment targets.
- (6) A review of statutory investment allocation limits applicable to the State Treasurer.
- (7) A review of national trends in revising investment allocation limits for state treasurers.
- (8) Any other issues pertinent to this study.

The Committee shall also examine the establishment of an optional retirement plan which may be elected in lieu of participation in the Teachers' and State Employees Retirement System and issues including the following:

- (1) An examination of legal and administrative frameworks for the establishment of the plan.
- (2) An examination of expected annual start-up costs to the State.
- (3) An examination of persons and entities that may serve as fiduciaries under the plan.
- (4) Any other issues deemed relevant to this issue."

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## STATUTORY AUTHORITY

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### NORTH CAROLINA GENERAL STATUTES ARTICLE 6B.

#### **Legislative Research Commission.**

##### **§ 120-30.17. Powers and duties.**

The Legislative Research Commission has the following powers and duties:

- (1) Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.
- (2) To report to the General Assembly the results of the studies made. The reports may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations.
- (3), (4) Repealed by Session Laws 1969, c. 1184, s. 8.
- (5), (6) Repealed by Session Laws 1981, c. 688, s. 2.
- (7) To obtain information and data from all State officers, agents, agencies and departments, while in discharge of its duty, pursuant to the provisions of G.S. 120-19 as if it were a committee of the General Assembly.
- (8) To call witnesses and compel testimony relevant to any matter properly before the Commission or any of its committees. The provisions of G.S. 120-19.1 through G.S. 120-19.4 shall apply to the proceedings of the Commission and its committees as if each were a joint committee of the General Assembly. In addition to the other signatures required for the issuance of a subpoena under this subsection, the subpoena shall also be signed by the members of the Commission or of its committee who vote for the issuance of the subpoena.
- (9) For studies authorized to be made by the Legislative Research Commission, to request another State agency, board, commission or committee to conduct the study if the Legislative Research Commission determines that the other body is a more appropriate vehicle with which to conduct the study. If the other body agrees, and no legislation specifically provides otherwise, that body shall conduct the study as if the original authorization had assigned the study to that body and shall report to the General Assembly at the same time other studies to be conducted by the Legislative Research Commission are to be reported. The other agency shall conduct the transferred study within the funds already assigned to it.

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## LEGISLATIVE PROPOSALS

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**LEGISLATIVE PROPOSAL 1:**

**GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2013**

**H**

**D**

**BILL DRAFT 2013-MEza-96 [v.5] (02/27)**

**(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)  
3/28/2014 4:06:52 PM**

Short Title: Positions for State Treasurer Compliance Unit.

(Public)

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Sponsors:

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT TO CREATE TWO RECEIPT-SUPPORTED POSITIONS FOR A  
3 COMPLIANCE UNIT WITHIN THE RETIREMENT SYSTEMS DIVISION OF  
4 THE DEPARTMENT OF STATE TREASURER, AS RECOMMENDED BY THE  
5 LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON TREASURER  
6 INVESTMENT TARGETS AND STATE EMPLOYEE RETIREMENT OPTIONS.

7 The General Assembly of North Carolina enacts:

8 **SECTION 1.** Two receipt-supported positions are hereby created in the  
9 Department of State Treasurer, Retirement Systems Division, in order to staff a  
10 compliance unit within the division. The unit is tasked with reducing the risk of fraud,  
11 abuse, and waste within the retirement systems. Receipts for the positions may come  
12 from investment income from, contributions to, or other assets of the retirement systems  
13 managed by the Department.

14 **SECTION 2.** This act becomes effective July 1, 2014.  
15

**LEGISLATIVE PROPOSAL 2:**

**GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2013**

**H**

**D**

**BILL DRAFT 2013-LLz-180 [v.12] (02/18)**

**(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)  
3/28/2014 4:08:57 PM**

Short Title: Return to Five-Year Vesting. (Public)

Sponsors: Representative.

Referred to:

A BILL TO BE ENTITLED  
AN ACT TO RETURN TO A FIVE-YEAR VESTING PERIOD FOR MEMBERS OF  
THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND  
THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM WHO BECAME  
MEMBERS ON OR AFTER AUGUST 1, 2011, AND TO MAKE A  
CONFORMING CHANGE TO THE SPECIAL SEPARATION ALLOWANCE  
FOR LAW ENFORCEMENT OFFICERS, AS RECOMMENDED BY THE  
LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON TREASURER  
INVESTMENT TARGETS AND STATE EMPLOYEE RETIREMENT OPTIONS.

The General Assembly of North Carolina enacts:

**SECTION 1.** G.S. 135-3(8) reads as rewritten:

"(8) The provisions of this subsection (8) shall apply to any member whose membership is terminated on or after July 1, 1963 and who becomes entitled to benefits hereunder in accordance with the provisions hereof.  
a. Notwithstanding any other provision of this Chapter, any member ~~who became a member prior to August 1, 2011, and~~ who separates from service prior to the attainment of the age of 60 years for any reason other than death or retirement for disability as provided in G.S. 135-5(c), after completing 15 or more years of creditable service, and who leaves his total accumulated contributions in said System shall have the right to retire on a deferred retirement allowance upon attaining the age of 60 years; provided that such member may retire only upon electronic submission or written application to the Board of Trustees setting forth at what time, not less than one day nor more than 120 days subsequent to the execution and filing thereof, he desires to be retired; and further provided that in the case of a member who so separates from service on or after July 1, 1967, or whose account is active on July 1, 1967, or has not withdrawn his contributions, the aforestated requirement of 15

1 or more years of creditable service shall be reduced to 12 or  
2 more years of creditable service; and further provided that in  
3 the case of a member who so separates from service on or after  
4 July 1, 1971, or whose account is active on July 1, 1971, the  
5 aforesaid requirement of 12 or more years of creditable  
6 service shall be reduced to five or more years of creditable  
7 service. Such deferred retirement allowance shall be computed  
8 in accordance with the service retirement provisions of this  
9 Article pertaining to a member who is not a law enforcement  
10 officer or an eligible former law enforcement officer.  
11 Notwithstanding the foregoing, any member whose services as  
12 a teacher or employee are terminated for any reason other than  
13 retirement, who becomes employed by a nonprofit, nonsectarian  
14 private school in North Carolina below the college level within  
15 one year after such teacher or employee has ceased to be a  
16 teacher or employee, may elect to leave his total accumulated  
17 contributions in the Teachers' and State Employees' Retirement  
18 System during the period he is in the employment of such  
19 employer; provided that he files notice thereof in writing with  
20 the Board of Trustees of the Retirement System within five  
21 years after separation from service as a public school teacher or  
22 State employee; such member shall be deemed to have met the  
23 requirements of the above provisions of this subdivision upon  
24 attainment of age 60 while in such employment provided that  
25 he is otherwise vested.

- 26 b. In lieu of the benefits provided in paragraph a of this  
27 subdivision (8), any member ~~who became a member prior to~~  
28 ~~August 1, 2011, and~~ who separates from service prior to the  
29 attainment of the age of 60 years, for any reason other than  
30 death or retirement for disability as provided in G.S. 135-5(c),  
31 after completing 20 or more years of creditable service, and  
32 who leaves his total accumulated contributions in said System,  
33 may elect to retire on an early retirement allowance upon  
34 attaining the age of 50 years or at any time thereafter; provided  
35 that such member may so retire only upon electronic  
36 submission or written application to the Board of Trustees  
37 setting forth at what time, not less than one day nor more than  
38 120 days subsequent to the execution and filing thereof, he  
39 desires to be retired. Such early retirement allowance so elected  
40 shall be equal to the deferred retirement allowance otherwise  
41 payable at the attainment of the age of 60 years reduced by the  
42 percentage thereof indicated below.

Age at Retirement	Percentage Reduction
59	7
58	14

1	57	20
2	56	25
3	55	30
4	54	35
5	53	39
6	52	43
7	51	46
8	50	50

b1. In lieu of the benefits provided in paragraphs a and b of this subdivision, any member ~~who became a member prior to August 1, 2011, and~~ who is a law-enforcement officer at the time of separation from service prior to the attainment of the age of 50 years, for any reason other than death or disability as provided in this Article, after completing 15 or more years of creditable service in this capacity immediately prior to separation from service, and who leaves his total accumulated contributions in this System may elect to retire on a deferred early retirement allowance upon attaining the age of 50 years or at any time thereafter; provided, that the member may commence retirement only upon electronic submission or written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 120 days subsequent to the execution and filing thereof, he desires to commence retirement. The deferred early retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to law-enforcement officers.

b2. In lieu of the benefits provided in paragraphs a and b of this subdivision, any member ~~who became a member prior to August 1, 2011, and~~ who is a law-enforcement officer at the time of separation from service prior to the attainment of the age of 55 years, for any reason other than death or disability as provided in this Article, after completing five or more years of creditable service in this capacity immediately prior to separation from service, and who leaves his total accumulated contributions in this System may elect to retire on a deferred early retirement allowance upon attaining the age of 55 years or at any time thereafter; provided, that the member may commence retirement only upon electronic submission or written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month not less than one day nor more than 120 days subsequent to the execution and filing thereof, he desires to commence retirement. The deferred early retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to law-enforcement officers.

- 1           b3.   Vested deferred retirement allowance of members retiring on or  
2           after July 1, 1994. – In lieu of the benefits provided in  
3           paragraphs a. and b. of this subdivision, any member ~~who~~  
4           ~~became a member prior to August 1, 2011, and~~ who separates  
5           from service prior to attainment of age 60 years, after  
6           completing 20 or more years of creditable service, and who  
7           leaves his total accumulated contributions in said System, may  
8           elect to retire on a deferred retirement allowance upon attaining  
9           the age of 50 years or any time thereafter; provided that such  
10          member may so retire only upon electronic submission or  
11          written application to the Board of Trustees setting forth at what  
12          time, not less than one day nor more than 120 days subsequent  
13          to the execution and filing thereof, he desires to be retired. Such  
14          deferred retirement allowance shall be computed in accordance  
15          with the service retirement provisions of this Article pertaining  
16          to a member who is not a law enforcement officer or an eligible  
17          former law enforcement officer.
- 18          b4.   ~~Any member who became a member on or after August 1,~~  
19          ~~2011, and who is not a law enforcement officer and (i) separates~~  
20          ~~from service prior to the attainment of the age of 60 years, after~~  
21          ~~completing 25 or more years of creditable service, and who~~  
22          ~~leaves the member's total accumulated contributions in said~~  
23          ~~System, may elect to retire on an unreduced service retirement~~  
24          ~~allowance upon attaining the age of 60 years or at any time~~  
25          ~~thereafter; or (ii) separates from service prior to the attainment~~  
26          ~~of the age of 50 years, after completing 20 or more years of~~  
27          ~~creditable service, and who leaves the member's total~~  
28          ~~accumulated contributions in said System, may elect to retire on~~  
29          ~~an early reduced retirement allowance upon attaining the age of~~  
30          ~~50 years or at any time thereafter; or (iii) separates from service~~  
31          ~~prior to the attainment of the age of 60 years, after completing~~  
32          ~~10 or more years but less than 25 years of creditable service,~~  
33          ~~and who leaves the member's total accumulated contributions in~~  
34          ~~said System, may elect to retire on an early reduced retirement~~  
35          ~~allowance upon attaining the age of 60 years or at any time~~  
36          ~~thereafter; or (iv) separates from service prior to the attainment~~  
37          ~~of the age of 65 years, after completing 10 or more years of~~  
38          ~~creditable service, and who leaves the member's total~~  
39          ~~accumulated contributions in said System, may elect to retire on~~  
40          ~~an unreduced retirement allowance upon attaining the age of 65~~  
41          ~~years or at any time thereafter; provided that such member may~~  
42          ~~so retire only upon electronic submission or written application~~  
43          ~~to the Board of Trustees setting forth at what time, not less than~~  
44          ~~one day nor more than 120 days subsequent to the execution~~  
45          ~~and filing thereof, the member desires to be retired.~~

b5. ~~Any member who became a member on or after August 1, 2011, who is a law enforcement officer and (i) separates from service prior to attainment of age 50 years, after completing 15 or more years of creditable service in this capacity, and who leaves the member's total accumulated contributions in said System, may elect to retire on an early reduced retirement allowance upon attaining the age of 50 years or any time thereafter; or (ii) separates from service prior to attainment of age 55 years, after completing 10 or more years of creditable service in this capacity, and who leaves the member's total accumulated contributions in said System, may elect to retire on an unreduced retirement allowance upon attaining the age of 55 years or any time thereafter; provided that such member may so retire only upon electronic submission or written application to the Board of Trustees setting forth at what time, not less than one day nor more than 120 days subsequent to the execution and filing thereof, the member desires to be retired.~~

..."

**SECTION 2.** G.S. 135-5(a) reads as rewritten:

"(a) Service Retirement Benefits.

- (1) ~~Any member who became a member prior to August 1, 2011, may retire upon electronic submission or written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 120 days subsequent to the execution of and filing thereof, he desires to be retired: Provided, that the said member at the time so specified for his retirement shall have attained the age of 60 years and have at least five years of membership service or shall have completed 30 years of creditable service.~~
- (1a) ~~Any member who became a member on or after August 1, 2011, may retire upon electronic submission or written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 120 days subsequent to the execution of and filing thereof, the member desires to be retired: Provided, that the said member at the time so specified for the member's retirement shall have attained the age of 60 years and have at least 10 years of membership service or shall have completed 30 years of creditable service.~~
- (2) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1019, s. 1.
- (3) Any member who was in service October 8, 1981, who had attained 60 years of age, may retire upon electronic submission or written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 120 days subsequent to the execution and filing thereof, he desires to be retired.
- (4) Any member who is a law-enforcement officer, ~~who became a member prior to August 1, 2011,~~ officer and who attains age 50 and completes



1 15 or more years of creditable service in this capacity or who attains  
2 age 55 and completes five or more years of creditable service in this  
3 capacity, may retire upon electronic submission or written application  
4 to the Board of Trustees setting forth at what time, as of the first day of  
5 a calendar month, not less than one day nor more than 120 days  
6 subsequent to the execution and filing thereof, he desires to be retired;  
7 Provided, also, any member who has met the conditions herein  
8 required but does not retire, and later becomes a teacher or an  
9 employee other than as a law-enforcement officer shall continue to  
10 have the right to commence retirement.

11 (4a) ~~Any member who is a law enforcement officer, who became a member~~  
12 ~~on or after August 1, 2011, and who attains age 50 and completes 15~~  
13 ~~or more years of creditable service in this capacity or who attains age~~  
14 ~~55 and completes 10 or more years of creditable service in this~~  
15 ~~capacity, may retire upon electronic submission or written application~~  
16 ~~to the Board of Trustees setting forth at what time, as of the first day of~~  
17 ~~a calendar month, not less than one day nor more than 120 days~~  
18 ~~subsequent to the execution and filing thereof, the member desires to~~  
19 ~~be retired; Provided, also, any member who has met the conditions~~  
20 ~~herein required but does not retire, and later becomes a teacher or an~~  
21 ~~employee other than as a law enforcement officer shall continue to~~  
22 ~~have the right to commence retirement.~~

23 (5) Any member who is eligible for and is being paid a benefit under the  
24 Disability Income Plan as provided in G.S. 135-105 or G.S. 135-106  
25 shall be deemed a member in service and may not retire under the  
26 provisions of this section. Any member who has made electronic  
27 submission or written application for long-term or extended short-term  
28 benefits under the Disability Income Plan as provided in G.S. 135-105  
29 or G.S. 135-106, and who has been rejected by the Plan's Medical  
30 Board for a long-term or extended short-term benefit shall have 90  
31 days from the date of notification of the rejection to convert his  
32 application to an early or service retirement application, provided that  
33 the member meets the eligibility requirements, effective the first day of  
34 the month following the month in which short-term disability benefits  
35 ended or the first day of the month following the month in which any  
36 salary continuation as may be provided in G.S. 135-104 ended,  
37 whichever is later."

38 **SECTION 3.** G.S. 135-5(a2) is repealed.

39 **SECTION 4.** G.S. 135-5(b19) reads as rewritten:

40 "(b19) Service Retirement Allowance of Members ~~Who Became a Member Prior to~~  
41 ~~August 1, 2011,~~ Retiring on or After July 1, 2002. – Upon retirement from service in  
42 accordance with ~~subdivision (a)(1), (a)(4), or~~ subsection (a) or (a1) of this section, on  
43 or after July 1, 2002, a member shall receive the following service retirement  
44 allowance:

45 ..."

46 **SECTION 5.** G.S. 135-5(b20) is repealed.

1           **SECTION 6.** G.S. 135-5(m) reads as rewritten:

2           "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, ~~who~~  
3 ~~became a member prior to August 1, 2011,~~ the beneficiary designated to receive a return  
4 of accumulated contributions shall have the right to elect to receive in lieu thereof the  
5 reduced retirement allowance provided by Option 2 of subsection (g) above computed  
6 by assuming that the member had retired on the first day of the month following the  
7 date of his death, provided that all four of the following conditions apply:

8           ..."

9           **SECTION 7.** G.S. 135-5(m3) is repealed.

10          **SECTION 8.** G.S. 135-57 reads as rewritten:

11        **"§ 135-57. Service retirement.**

12          (a) Any member on or after January 1, 1974, ~~who became a member prior to~~  
13 ~~August 1, 2011, and~~ who has attained his fiftieth birthday and five years of membership  
14 service may retire upon electronic submission or written application to the board of  
15 trustees setting forth at what time, as of the first day of a calendar month, not less than  
16 one day nor more than 120 days subsequent to the execution and filing thereof, he  
17 desires to be retired.

18          (a1) ~~Any member who became a member on or after August 1, 2011, and who has~~  
19 ~~attained the member's fiftieth birthday and 10 years of membership service may retire~~  
20 ~~upon electronic submission or written application to the Board of Trustees setting forth~~  
21 ~~at what time, as of the first day of a calendar month, not less than one day nor more than~~  
22 ~~120 days subsequent to the execution and filing thereof, the member desires to be~~  
23 ~~retired.~~

24          (b) Any member who is a justice or judge of the General Court of Justice shall be  
25 automatically retired as of the first day of the calendar month coinciding with or next  
26 following the later of January 1, 1974, or his attainment of his seventy-second birthday;  
27 provided, however, that no judge who is a member on January 1, 1974, shall be forced  
28 to retire under the provisions of this subsection at an earlier date than the last day that he  
29 is permitted to remain in office under the provisions of G.S. 7A-4.20.

30          (c) Any member who terminates service on or after January 1, 1974, having  
31 accumulated five or more years of creditable service ~~and having become a member prior~~  
32 ~~to August 1, 2011,~~ may retire under the provisions of subsection (a) above, provided  
33 that he shall not have withdrawn his accumulated contributions prior to the effective  
34 date of his retirement, and the requirement of subsection (a) that the member be in  
35 service shall not apply.

36          (c1) ~~Any member having accumulated 10 or more years of creditable service and~~  
37 ~~having become a member on or after August 1, 2011, may retire under the provisions of~~  
38 ~~subsection (a1) above, provided that the member shall not have withdrawn the member's~~  
39 ~~accumulated contributions prior to the effective date of the member's retirement, and the~~  
40 ~~requirement of subsection (a1) that the member be in service shall not apply.~~

41          (d) Any member who was in service October 8, 1981, who had attained 50 years  
42 of age, may retire upon electronic submission or written application to the board of  
43 trustees setting forth at what time, as of the first day of a calendar month, not less than  
44 one day nor more than 120 days subsequent to the execution and filing thereof, he  
45 desires to be retired."

46        **SECTION 9.** G.S. 135-106(b) reads as rewritten:

1       "(b) After the commencement of benefits under this section, the benefits payable  
2 under the terms of this section during the first 36 months of the long-term disability  
3 period shall be equal to sixty-five percent (65%) of 1/12th of the annual base rate of  
4 compensation last payable to the participant or beneficiary prior to the beginning of the  
5 short-term disability period as may be adjusted for percentage increases as provided  
6 under G.S. 135-108, plus sixty-five percent (65%) of 1/12th of the annual longevity  
7 payment to which the participant or beneficiary would be eligible, to a maximum of  
8 three thousand nine hundred dollars (\$3,900) per month reduced by any primary Social  
9 Security disability benefits to which the beneficiary may be entitled, effective as of the  
10 first of the month following the month of initial entitlement, and by monthly payments  
11 for Workers' Compensation to which the participant or beneficiary may be entitled.  
12 When primary Social Security disability benefits are increased by cost-of-living  
13 adjustments, the increased reduction shall be applied in the first month following the  
14 month in which the member becomes entitled to the increased Social Security benefit.  
15 The monthly benefit shall be further reduced by the amount of any monthly payments  
16 from the federal Department of Veterans Affairs, any other federal agency or any  
17 payments made under the provisions of G.S. 127A-108, to which the participant or  
18 beneficiary may be entitled on account of the same disability. Provided, in any event,  
19 the benefit payable shall be no less than ten dollars (\$10.00) a month. However, a  
20 disabled participant may elect to receive any salary continuation as provided in G.S.  
21 135-104 in lieu of long-term disability benefits; provided such election shall not extend  
22 the first 36 consecutive calendar months of the long-term disability period. An election  
23 to receive any salary continuation for any part of any given day shall be in lieu of any  
24 long-term benefit payable for that day, provided further, any lump-sum payout for  
25 vacation leave shall be treated as if the beneficiary or participant had exhausted the  
26 leave and shall be in lieu of any long-term benefit otherwise payable. Provided that, in  
27 any event, a beneficiary's benefit shall be reduced during the first 36 months of the  
28 long-term disability period by an amount, as determined by the Board of Trustees, equal  
29 to a primary Social Security retirement benefit to which the beneficiary might be  
30 entitled.

31       After 36 months of long-term disability, no further benefits are payable under the  
32 terms of this section unless the member has been approved and is in receipt of primary  
33 Social Security disability benefits. In that case the benefits payable shall be equal to  
34 sixty-five percent (65%) of 1/12th of the annual base rate of compensation last payable  
35 to the participant or beneficiary prior to the beginning of the short-term disability period  
36 as may be adjusted for percentage increases as provided under G.S. 135-108, plus  
37 sixty-five percent (65%) of 1/12th of the annual longevity payment to which the  
38 participant or beneficiary would be eligible, to a maximum of three thousand nine  
39 hundred dollars (\$3,900) per month reduced by the primary Social Security disability  
40 benefits to which the beneficiary may be entitled, effective as of the first of the month  
41 following the month of initial entitlement, and by monthly payments for Workers'  
42 Compensation to which the participant or beneficiary may be entitled. When primary  
43 Social Security disability benefits are increased by cost-of-living adjustments, the  
44 increased reduction shall be applied in the first month following the month in which the  
45 member becomes entitled to the increased Social Security benefit. The monthly benefit  
46 shall be further reduced by the amount of any monthly payments from the federal

1 Department of Veterans Affairs, for payments from any other federal agency, or for any  
2 payments made under the provisions of G.S. 127A-108, to which the participant or  
3 beneficiary may be entitled on account of the same disability. Provided, in any event,  
4 the benefit payable shall be no less than ten dollars (\$10.00) a month.

5 Notwithstanding the foregoing, ~~but subject to an additional integration with the~~  
6 ~~five-year and 10-year retirement vesting provisions as set forth in this paragraph,~~ the  
7 long-term disability benefit is payable so long as the beneficiary is disabled and is in  
8 receipt of a primary Social Security disability benefit until the earliest date at which the  
9 beneficiary ~~who became a member prior to August 1, 2011,~~ is eligible for an unreduced  
10 service retirement allowance from the Retirement System, at which time the beneficiary  
11 would receive a retirement allowance calculated on the basis of the beneficiary's  
12 average final compensation at the time of disability as adjusted to reflect compensation  
13 increases subsequent to the time of disability and the creditable service accumulated by  
14 the beneficiary, including creditable service while in receipt of benefits under the Plan.  
15 ~~In the case of any long-term disability beneficiary who became a member on and after~~  
16 ~~August 1, 2011, and ordinarily would not be eligible for a retirement benefit without 10~~  
17 ~~years of membership service, for purposes of this conversion from long-term disability~~  
18 ~~to service retirement, and for that purpose only, noncontributory creditable service~~  
19 ~~granted while in receipt of disability benefits under this Article shall be deemed to be~~  
20 ~~membership service, through the completion of 10 years of combined membership and~~  
21 ~~noncontributory service on short-term and long-term disability benefits in total.~~ In the  
22 event the beneficiary has not been approved and is not in receipt of a primary Social  
23 Security disability benefit, the long-term disability benefit shall cease after the first 36  
24 months of the long-term disability period. When such a long-term disability recipient  
25 begins receiving this unreduced service retirement allowance from the System, that  
26 recipient shall not be subject to the six-month waiting period set forth in G.S. 135-1(20).  
27 However, a beneficiary shall be entitled to a restoration of the long-term disability  
28 benefit in the event the Social Security Administration grants a retroactive approval for  
29 primary Social Security disability benefits with a benefit effective date within the first  
30 36 months of the long-term disability period. In such event, the long-term disability  
31 benefit shall be restored retroactively to the date of cessation."

32 **SECTION 10.** G.S. 143-166.41 reads as rewritten:

33 **"§ 143-166.41. Special separation allowance.**

34 (a) Notwithstanding any other provision of law, every sworn law-enforcement  
35 officer as defined by G.S. 135-1(11c) or G.S. 143-166.30(a)(4) employed by a State  
36 department, agency, or institution ~~prior to August 1, 2011,~~ and who qualifies under this  
37 section shall receive, beginning in the month in which he retires on a basic service  
38 retirement under the provisions of G.S. 135-5(a), an annual separation allowance equal  
39 to eighty-five hundredths percent (0.85%) of the annual equivalent of the base rate of  
40 compensation most recently applicable to him for each year of creditable service. The  
41 allowance shall be paid in equal installments on the payroll frequency used by the  
42 employer. To qualify for the allowance the officer shall:

- 43 (1) Have (i) completed 30 or more years of creditable service or, (ii) have  
44 attained 55 years of age and completed five or more years of creditable  
45 service; and  
46 (2) Not have attained 62 years of age; and

1 (3) Have completed at least five years of continuous service as a law  
2 enforcement officer as herein defined immediately preceding a service  
3 retirement. Any break in the continuous service required by this  
4 subsection because of disability retirement or disability salary  
5 continuation benefits shall not adversely affect an officer's  
6 qualification to receive the allowance, provided the officer returns to  
7 service within 45 days after the disability benefits cease and is  
8 otherwise qualified to receive the allowance.

9 (a1) ~~Notwithstanding any other provision of law, every sworn law enforcement~~  
10 ~~officer as defined by G.S. 135-1(11c) or G.S. 143-166.30(a)(4) employed by a State~~  
11 ~~department, agency, or institution on or after August 1, 2011, and who qualifies under~~  
12 ~~this section shall receive, beginning in the month in which the member retires on a basic~~  
13 ~~service retirement under the provisions of G.S. 135-5(a), an annual separation allowance~~  
14 ~~equal to eighty-five hundredths percent (0.85%) of the annual equivalent of the base rate~~  
15 ~~of compensation most recently applicable to him for each year of creditable service. The~~  
16 ~~allowance shall be paid in equal installments on the payroll frequency used by the~~  
17 ~~employer. To qualify for the allowance, the officer shall:~~

18 (1) ~~Have (i) completed 30 or more years of creditable service or (ii)~~  
19 ~~attained 55 years of age and completed 10 or more years of creditable~~  
20 ~~service; and~~

21 (2) ~~Not have attained 62 years of age; and~~

22 (3) ~~Have completed at least 10 years of continuous service as a law~~  
23 ~~enforcement officer as herein defined immediately preceding a service~~  
24 ~~retirement. Any break in the continuous service required by this~~  
25 ~~subsection because of disability retirement or disability salary~~  
26 ~~continuation benefits shall not adversely affect an officer's~~  
27 ~~qualification to receive the allowance, provided the officer returns to~~  
28 ~~service within 45 days after the disability benefits cease and is~~  
29 ~~otherwise qualified to receive the allowance.~~

30 ..."

31 **SECTION 11.** This act is effective when it becomes law.